



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: June 15, 2001

REPORT NO. 01-133
(Corrected Report No.)
6/18/01

ATTENTION: Honorable Mayor and City Council

SUBJECT: Mission Bay Park Funding

SUMMARY

Issues - Should funds be earmarked annually for deposit to the Mission Bay Park Reserve Fund for Mission Bay Master Plan projects? Should lease revenue currently generated at the Park, over and above an annual base of \$17 million be allocated to the Reserve Fund?

Manager's Recommendation - Do not earmark money for deposit to the Mission Bay Park Reserve Fund. Continue to allocate General Fund revenue for Mission Bay Master Plan projects as directed by the Mayor and City Council.

Other Recommendations - The City Attorney recommends that if a fund is created that it be similar to policies created for Library Operation and Maintenance (#100-19), and the Transient Occupancy Tax (#100-03). The City Council would establish no new taxes for this purpose. The policy would not be intended for, or constitute an irrevocable commitment by the Mayor and City Council to allocate monies for this purpose. Such a commitment may only be made, in the Council's discretion, at the time the annual budget ordinances are adopted, or as they may be amended from time to time.

It has been proposed by Councilmember Wear that a Mission Bay Park Reserve Fund include lease revenues over and above the \$17 million in base lease revenues that were estimated for Fiscal Year 2001, at Mission Bay Park. At the current projected revenue for Fiscal Year 2002 of \$19 million, this would allow \$2 million to be placed in the Reserve Fund. Councilmember Wear further proposes that after five years the base lease revenue of \$17 million would be adjusted upward by the annual percentage growth in the San Diego Metropolitan Consumer Price Index (CPI). The Transient Occupancy Tax (TOT)

and Sales Tax generated within the Park would continue to accrue to the General Fund.

If the total lease revenue for Mission Bay Park grows steadily at roughly the CPI, the net revenue to the Mission Bay Reserve Fund will grow steadily at about the same rate. However, a large increase to the Reserve Fund and a significant impact on the General Fund could occur if the growth of the total lease revenue for Mission Bay Park is significantly greater than CPI as expected with the addition of new hotels. Similarly, if the total lease revenue grows more slowly than the CPI, or the hotels are delayed, there could be little or no additional revenue available for the Mission Bay Reserve Fund for the near term.

A second alternative is to refer this item to the Rules Committee for their review and recommendations.

A third alternative is to address the funding of projects at Mission Bay Park through a Regional Parks Infrastructure Allocation, if approved by the Mayor and City Council during the Fiscal Year 2002 budget discussions. A potential source of funding for the Regional Parks Infrastructure Allocation could be an allocation of the Transient Occupancy Tax revenue. The allocated revenue could be used for infrastructure projects at Mission Bay Park, Balboa Park, Mission Trails Regional Park, Otay Valley Regional Park and other City parks.

Fiscal Impact - Earmarking revenue from the General Fund for the Mission Bay Park Reserve Fund would result in an estimated reduction in General Fund revenues, for Fiscal Year 2002 of approximately \$2 million, based on anticipated lease revenue and using the Fiscal Year 2001 budget estimate as the base amount. Not earmarking revenue for the Mission Bay Reserve Fund will allow the Mayor and City Council to continue to fund Mission Bay Park in accordance with established budget principles. The Mayor and City Council will continue to determine spending priorities by relative need, rather than by geographic area. Continued substantive earmarking of revenues will harm the City's credit rating and reduce its financial flexibility.

BACKGROUND

At the Rules Committee meeting of November 20, 2000, Councilmember Wear proposed that the Council consider earmarking lease revenues over and above the \$17 million that is currently generated at Mission Bay Park, for the Mission Bay Reserve Fund. This item was referred to the City Manager and the City Attorney for review and recommendation (see attached memo).

The estimated fiscal impact of earmarking revenue for the Mission Bay Park Reserve Fund, as proposed, would be a reduction in the proposed General Fund budget of about \$2 million for Fiscal Year 2002. Future years financial impact has not yet been determined but is expected to be substantial, as much as \$3-\$5 million per year for several years, as several new hotels are planned for Mission Bay.

Legal Statutes Controlling Park Use

Acquisition of Mission Bay Park is from several sources, most of which restrict use of the land to park sources. The following are the key legal requirements determining how the park can be used.

State Tidelands Trust: The majority of the park was granted in trust to the City by the State of California in 1945. The grant restricts the use of the property to boating, navigation, fisheries, commerce, parks, playgrounds and related recreation, education and commercial activities.

City Charter Section 55: This charter section states that any park dedicated by either a City Council ordinance or a statute of the State Legislature cannot be used for anything but park and recreation without a two-thirds vote of the electorate.

City Charter Section 55.1: This section states that the total commercial leases in Mission Bay Park shall not exceed 25 percent of the total dedicated land area or 6.5 percent of the total dedicated water area without a two-thirds vote of the electorate.

Kapiloff Legislation: In 1973, state legislation authored by Assemblyman Larry Kapiloff allowed residential use at the DeAnza trailer park until November 2003 to give property owners sufficient time to transition out of the mobile home park.

Park Management

Reporting directly to the Senior Deputy City Manager, a Management Assistant was appointed in early 1999 to be responsible for coordinating all interdepartmental activities in the Park and providing input and recommendations to the City Manager's Office regarding park operations. Departments with responsibilities in Mission Bay Park include:

Park and Recreation: Manages Mission Bay Park and maintains waterway buoys, parking lots, signs, comfort stations, playgrounds, lawns, landscaped areas, pedestrian and cycle paths, and trees; issues most special event permits, operates Robb Field Skateboard Park and Fiesta Island Youth Camp; cleans fire rings; and picks up trash.

Fire and Life Safety Services: Provides lifeguards at swimming beaches, responds to aquatic accidents and emergencies, provides fire response and suppression, hazardous material response, and emergency medical services.

Police: Maintains an active crime deterrence presence in the Park, provides traffic management during peak periods, responds to reported crime, operates a harbor unit, works with neighborhood watch groups, holds public forums, Retired Senior Volunteer Patrol operates a Boating Safety Unit, maintains a community relations office, and operates a Homeless Outreach Team.

Real Estate Assets: Negotiates, maintains, manages, and assists with projects; sells, processes, and inspects leases owned by the City; and reviews development proposals.

General Services: Facilities Maintenance Division's responsibilities includes painting, plumbing, electrical repairs, roofing, heating and air conditioning repairs, and other routine maintenance work at the recreation centers, comfort stations, parks, beaches, and other City facilities within the park.

Transportation: Maintains 10 miles of streets and more than 1,000 street and parking lot signs in the area.

Engineering and Capital Projects: Designs and manages all City capital improvement projects in Mission Bay. Works on specific, large maintenance projects identified by the Mayor and City Council.

Revenues

As shown in Table 1, Mission Bay generates a significant amount of revenue each year from commercial and non-profit leaseholders, and Transient Occupancy Taxes.

Table 1 - Estimated Revenue - Mission Bay Park

Source	1999 Actual	2000 Actual	2001 Budget	2002 Proposed Budget*
Leases	\$16,460,000	\$17,658,000	\$18,300,000	\$19,055,000
Transient Occupancy Tax (TOT)	\$8,360,000	\$8,782,000	\$9,484,000	\$10,053,000
Mooring Leases	\$49,000	\$51,000	\$30,000	\$32,000
TOTAL	\$24,869,000	\$25,263,000	\$26,680,000	\$29,140,000

* TOT and Mooring lease projections for Fiscal Year 2002 proposed budget are based on 6% increase from prior year

1994 Master Plan- Related Expenditures

A master plan for Mission Bay Park improvements was developed in 1994. The current plan makes a commitment to environmental improvements and calls for improving water quality, enhancing wetland and upland habitat, establishing a new marsh, and creating overflow parking lots. The plan is consistent with and expands upon the park's traditional objectives as a regional destination for waterside recreation and intensifying existing leaseholds rather than developing unrestricted parkland. The plan does not address funding.

The following are examples of the planned environmental and recreational Capital Improvements Program projects that have already been completed. These were funded by many sources, including the General Fund, certificates of participation, Mission Bay Park Foundation, Mission Bay Park Endowment Fund, Sludge Mitigation Funds and miscellaneous grants. These projects are also summarized in Table 3 on the following page.

- ▶ Fiscal Year 1991, South Shores, Tecolote Shores, Santa Clara Point and Bonita Cove improvements; Mission Bay Plan update, \$2,485,000
- ▶ Fiscal Year 1996, South Shores and Fiesta Island improvements, \$1,400,000
- ▶ Fiscal Year 1997, Crown Point, De Anza Cove, Sail Bay, La Playa, Tecolote Shores, South Shores, Southwest Vacation Isle, and Fiesta Island improvements to bicycle/walkway, playgrounds, parking lots, landscaping and picnic shelters, \$1,612,000
- ▶ Fiscal Year 1998, Fiesta Island, Bonita Cove, La Playa and Fanuel Street improvements to bicycle paths, walkways, playgrounds, recreation centers and picnic shelters, \$1,435,000

- Fiscal Year 2001, Bayside, and Robb Field sidewalk improvements, and sidewalk and comfort center improvements, \$1,021,775

Other Expenditures

In addition to operating expenditures averaging about \$17 million over the last three years as shown in Table 2, the City spent almost three hundred million dollars (\$300M) to upgrade and improve the sewer system in the Mission Bay Park over the last decade. Table 3 shows the estimated level of expenditures made at Mission Bay Park for capital improvements, including sewer upgrades.

Table 2 - Estimated Operating Expenditures - Mission Bay Park

Category	1999 Estimated	2000 Estimated	2001 Estimated
Park & Recreation	\$5,896,000	\$6,741,000	\$7,324,000
Police, Fire & Life Safety Services	\$7,731,000	\$8,380,000	\$8,902,000
Lease management, facilities and street maintenance, management assistance, marketing and promotion	\$1,892,000	\$2,004,000	\$2,418,000
TOTAL	\$15,519,000	\$17,125,000	\$18,644,000

Table 3 - Estimated Capital Expenditures- Mission Bay Park

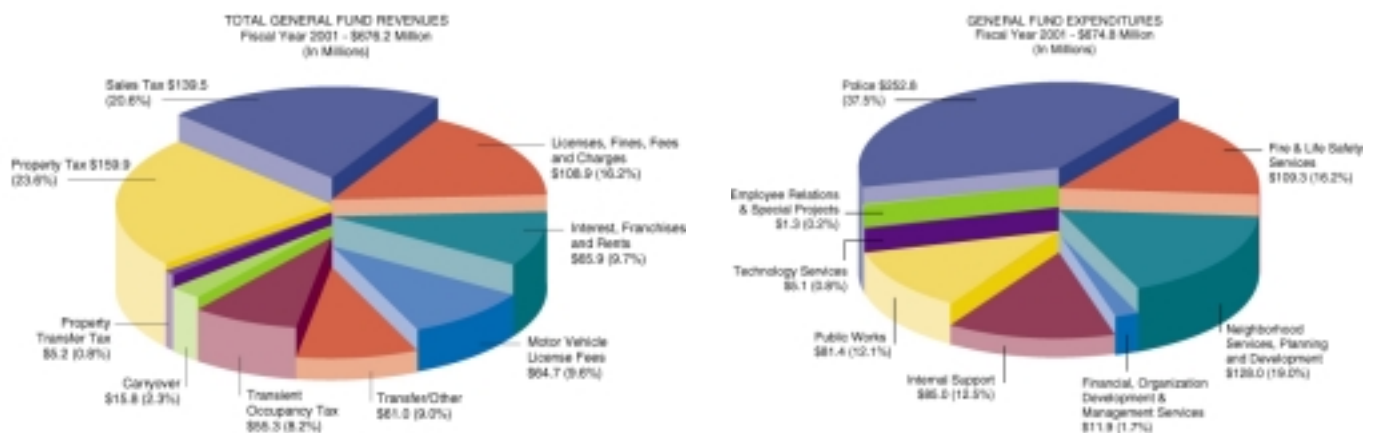
Projects	Estimated* Expenditures
Miscellaneous CIP Projects Fiscal Years 1991-1998	\$6,932,000
Miscellaneous CIP Projects Fiscal Year 2001	\$1,021,000
Sewer Main Replacement Projects on Mission Bay 1988 - present	\$24,000,000
Interceptor Tank Sewers on Mission Bay 1988 - present	\$64,700,000
Sewer Pump Station Upgrades for Mission Bay 1988 - present	\$14,000,000
Mission Bay Sewage Interceptor System (MBSIS) for Mission Bay 1988 -	\$9,400,000
Supervisory Control Data Acquisition System (SCADA) for Mission Bay 1988 -	\$2,500,000
Moving Sludge Facilities from Fiesta Island**	\$179,000,000
Santa Clara Pump Station - Storm Station "N"- 1999-2001	\$1,808,000
TOTAL	\$303,361,000

* Sewer related projects were the result of a cease and desist order for the removal of sludge from Fiesta Island. ** This includes construction costs for the Metropolitan Biosolids Center in Kearny Mesa attributable to Mission Bay (\$154 million), plus the cost of the pipeline from Mission Bay to the Metroolitan Biosolids Center (\$25 million).

DISCUSSION:

The revenue currently derived from Mission Bay Park consists of TOT, sales tax and lease revenue and is deposited into the General Fund. This revenue, along with other park revenue, is used for all City park projects on the basis of need rather than location. Mission Bay Park has been a funding priority for the City. Since 1988 almost \$300 million has been spent on projects for the Park or as a result of moving sludge facilities out of the Park making recreational land more available.

Fiscal Year 2002 lease revenue for Mission Bay Park is estimated to be about \$19 million, an increase of about \$2 million from Fiscal Year 2000 budget estimate which was approximately \$17 million. Earmarking revenue for the Mission Bay Park Reserve Fund as proposed would be a reduction in the proposed General Fund budget of about \$2 million for Fiscal Year 2002. Future years financial impact could be as much as \$3-\$5 million per year as a result of new hotels being constructed at Mission Bay Park. Alternative revenues will need to be found, or corresponding reductions will need to be made in the General Fund budget for the impacted years. This will further constrain the General Fund and reduce the Mayor and City Council's ability to address citywide funding priorities. The result is reduced revenues for other uses. Earmarking General Fund revenues for a Mission Bay Park Reserve Fund will exacerbate the issue of insufficient revenue sources to support General Fund services.



As shown in the pie charts above, the City receives 17% of the local property taxes and 13% of the local sales taxes. The balance of these revenues go to the State. These sales and property taxes made up about 44.2 % of the City's General Fund revenue in Fiscal Year 2001. Expenditures for Police and Fire made up about 53.7% of General Fund expenditures. Whereas at one time, sales and property taxes were sufficient to cover the cost of public safety (police, fire and emergency services), they currently do not and must be supplemented by other revenues in the General Fund.

The City of San Diego has six budget principles that have guided the City in increasing reserves, reducing reliance on one-time revenues and providing greater discretion over City revenues. Since these principles were introduced, the City's General Fund reserves are the highest level in the City's history. Establishing a Mission Bay Park Reserve Fund would be inconsistent with these principles.

One element of the budget principles states that activities supported by user fees should be fully cost recoverable. Lease revenues, TOT and property taxes are not considered user fees and thus are deposited in the General Fund to allow the Mayor and City Council the greatest discretion in determining citywide priorities. These citywide priorities include essential City services such as police; fire and life safety services; refuse collection; library services and parks and recreation programs.

The budget principles also state that discretionary fund revenues should not be earmarked, thereby allowing the Mayor and City Council maximum flexibility in funding decisions on an annual basis. This is especially important during economic downturns when discretionary revenue does not meet the total requirements for essential City services. It has consistently been the City Manager's recommendation to the Mayor and City Council that, in an effort to maintain fiduciary responsibility, earmarking of future revenues be minimized.

Increasing the percentage of discretionary funds that are designated for specific projects imposes restrictions on the Mayor and City Council, limiting their discretion in prioritizing expenditures based upon current and anticipated needs. As part of the budget process, the Mayor and City Council evaluates and prioritizes the revenues available and the expenditures required to fund essential City services. The funding level for Mission Bay Park improvements is considered during every annual budget process.

The International City/County Management Association (ICMA) promotes the concept that current expenditures should be funded by current revenues and a diversified and stable revenue system should be developed to guard against short-term fluctuations in any single revenue source. ICMA also supports the policy that no revenues be dedicated for specific purposes unless required by law or generally accepted accounting principles (GAAP). The City's budget principles are consistent with these concepts.

CONCLUSION:

Mission Bay Park is an important asset to the City and should continue to receive the strong support of the Mayor and City Council as it has in the past. However, earmarking revenues for the Mission Bay Reserve Fund will constrain the Mayor and City Council's ability to meet their fiscal responsibility to appropriately fund all City services. It continues to be prudent for the Mayor and City Council to review funding for each project, annually, or on an as-needed basis and within the context of the prevailing economy. Continuing to allow the Mayor and City Council to make spending decisions for all City parks, including Mission Bay Park will insure that revenues are carefully and effectively applied for the benefit of all citizens using City parks.

Respectfully Submitted,

Lisa Irvine
Financial Management Director

Approved: Michael T. Uberuaga
City Manager

LSM/sdb

Note: The attachment is not available in electronic format. A copy is available in the Office of the City Clerk.

Attachment: Mission Bay Park Memo

AIM#00-0636